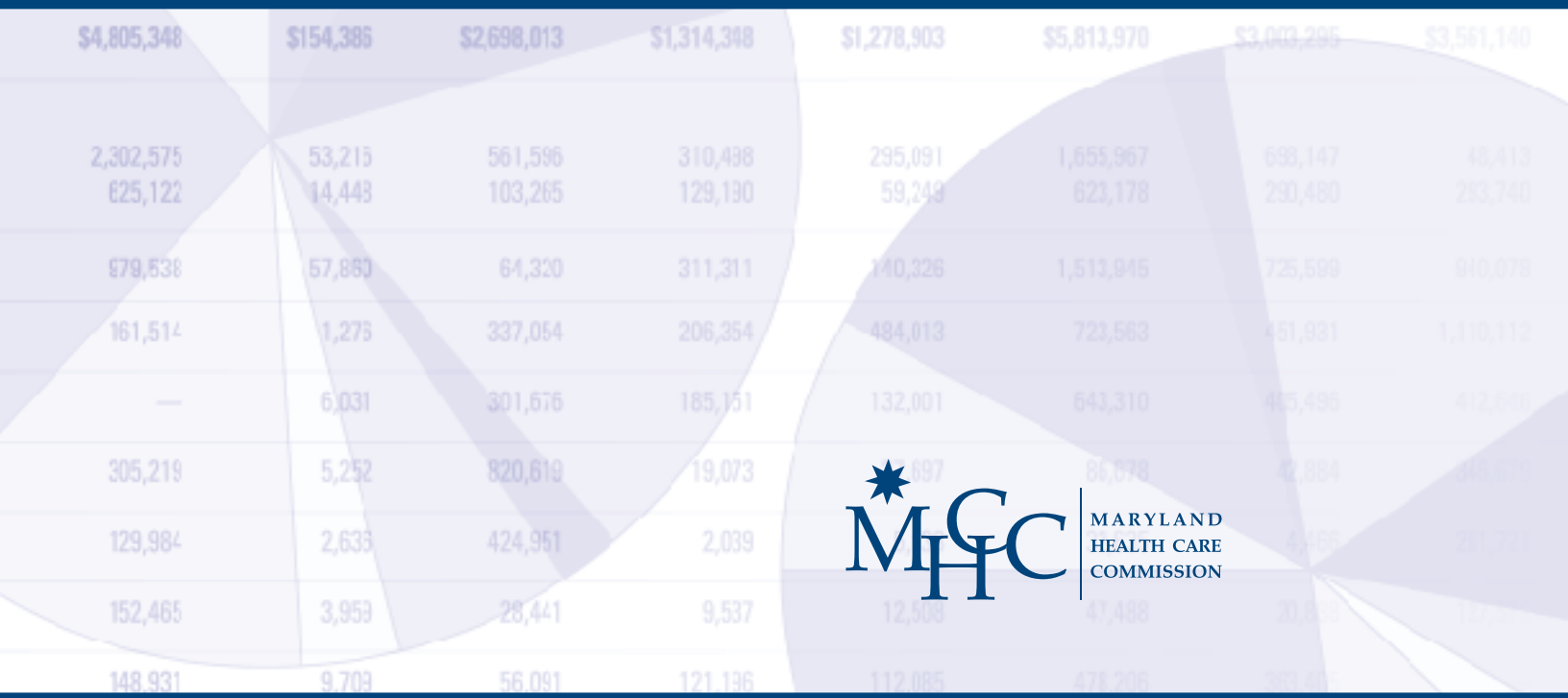
# State Health Care Expenditures

## EXPERIENCE FROM 2003



MHCC MARYLAND HEALTH CARE COMMISSION

Released January 2005 · Stephen J. Salamon, Chairman

# LETTER FROM THE CHAIRMAN

MARYLAND HEALTH CARE COMMISSION



*This report continues the Maryland Health Care Commission's effort to track health care spending in Maryland as required under Maryland law. The January release of this report is timed to provide the Executive and Legislative branches the opportunity to consider implications of past policies early in the legislative process.*

*This report shows that health care spending growth slowed somewhat in 2003 from the previous year. However, health care spending continues to grow more rapidly than personal income and other broader economic measures. Despite the slowing growth in 2003, health care premiums continued to increase rapidly in 2004. Consumers and purchasers have yet to see much relief from the burden of growing health care premiums.*

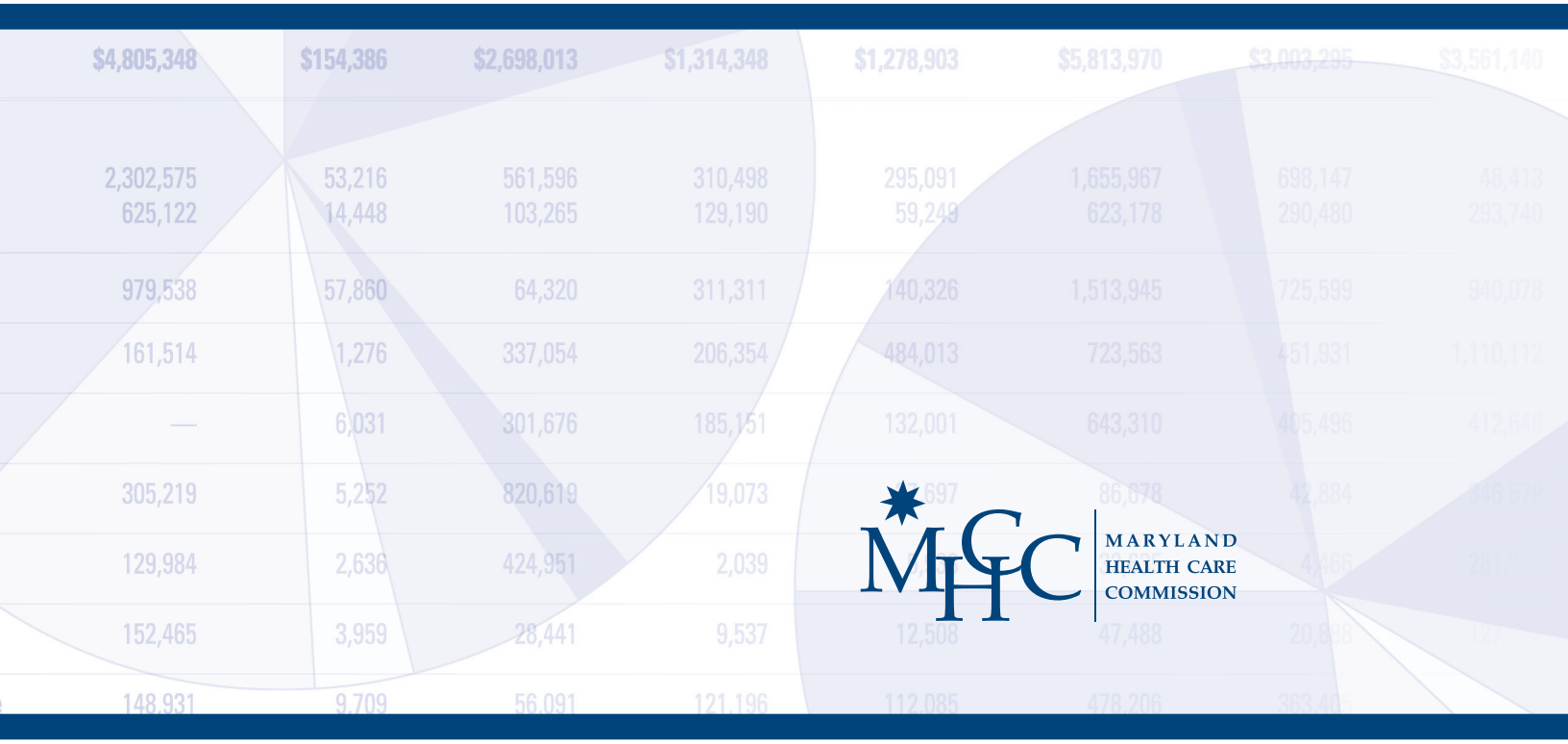
*One of the primary missions of the Maryland Health Care Commission is to make health care coverage more affordable. The results presented in this report when coupled with MHCC's recent report that found over 740,000 Marylanders lacked insurance coverage in 2002-2003 indicates that policymakers must work harder to ensure that Maryland residents have access to quality affordable health care. Upward pressure on premiums and growing numbers of uninsured are nationwide problems; however in Maryland we have taken pride in developing our own solutions to complex health care issues. I am confident that by working together we can develop innovative solutions to providing affordable health care in the state.*

*The report would not have been possible without the cooperation of other state agencies, the federal government and private organizations that provided information. The Commission is grateful to these organizations for working closely with Commission staff to complete this study in time for the 2005 Session of the Maryland General Assembly.*

*Stephen J. Salamon*
*Chairman*

# State Health Care Expenditures

## EXPERIENCE FROM 2003



MARYLAND HEALTH CARE COMMISSION

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# ACKNOWLEDGEMENTS

This report required the assistance of many individuals and offices in state government, private industry, and federal government. In particular, the Commission wishes to note special contributions from the following individuals and organizations: Patricia Holcomb, Office of Planning, Development and Finance, Maryland Department of Health and Mental Hygiene (DHMH), and Babi Lamba, Center for Health Program Development and Management, University of Maryland-Baltimore County, provided Medicaid expenditure and enrollment information. Jim Johnson and Hank Fitzer, Budget Management Office, DHMH, and Dr. Anthony Swetz, Maryland Department of Corrections, supplied information on government spending, while Estelle Apelberg, Vital Statistics, DHMH, provided population statistics.

In constructing spending accounts of this complexity, the MHCC relied on estimates of private insurance expenditures supplied by Calvert Gorman of the Maryland Insurance Administration. Jake Pyzik, Maryland Department of Budget Management, provided information on health insurance expenditure patterns for state employees. As in previous years, Maribel Franey and Cheryl Sample at the Centers for Medicare & Medicaid Services (CMS) assisted MHCC with the data use agreements that are necessary before Medicare information can be released. Dinah Horton prepared the extracts of CMS claims data needed to conduct the analysis. Leroy McKnight in the federal government's Office of Personnel Management supplied information on federal employees' insurance coverage. Richard D. Barnett (TRICARE Management Activity) provided spending information on CHAMPUS/TRICARE programs, and Pat Kane at the Department of Veterans Affairs provided similar spending data on VA programs. Anne Martin of the Office of the Actuary at CMS provided estimates of expenditures for nontraditional Medicare programs. Dr. Patrick Redmon of the Health Services Cost Review Commission (HSCRC) provided estimates of hospital spending.

This year the MHCC further refined the methodology for allocating private sector spending across services categories. Information from the Agency for Healthcare

Research and Quality's (AHRQ) Medical Expenditure Panel Survey (MEPS) was used extensively in this effort. William Carroll, Karen Beauregard, and Ray Kuntz at AHRQ provided advice on the use of the MEPS data files. We look forward to even greater collaboration in the future.

The development of the state health care expenditure analysis would not have been possible without the significant contributions of our consultants. This project was under the direction of Dr. Deborah Chollet, Mathematica Policy Research (MPR), Thomas Bell of Social & Scientific Systems (SSS), Dr. Dean Farley of Healthcare Software Synergies, Inc. (HSS), and Sophie Nemirovsky (SSS). Dr. Eric Schone of MPR developed the estimation algorithms for private sector spending using the MEPS data. Thomas Bell was assisted by Laurie Hamilton, Adrian Ndikumwami, Cynthia Saiontz-Martinez, John May, and Po-Lun Chou at SSS. Priscilla Thompson and her staff of Solutions Technology, Incorporated, provided data collection and processing support. Beverly Valdez of SSS with the assistance of Laura Spofford and Michael Antonio provided the graphic design services for the report.

# SUMMARY

This report, State Health Care Expenditures: Experience from 2003, contains information on total expenditures for or by Maryland residents, by public and private sources. It includes expenditures for most types of personal health care services, as well as administrative expenses and the net cost of private health insurance. In releasing this report, the Commission meets its mandate to report annually on the state's total expenditures for health care services in accordance with Maryland law.

Total health care spending among Maryland residents totaled $26.5 billion, up from $24.5 billion in 2002. The 8-percent rate of growth in 2003 is 3 percentage points lower than the growth rate MHCC reported for 2002 and reflects the recent national estimate.[1] The smaller growth rate in health care spending in 2003, when viewed in conjunction with the changes the Maryland Health Care Commission (MHCC) reported in the previous expenditure reports, suggests that the rapid escalation in spending, which began in 1999 and peaked in 2001, trended modestly lower in 2001-2003. Nevertheless, growth in health care spending remains high when measured against overall growth in personal income, which increased by 4 percent in 2003.[2]

Per capita spending, which measures spending change after absolute population increases have been removed, grew at a rate of 7 percent, which was equal to the national increase of about 7 percent. Per capita spending for all Maryland residents stood at $4,811, compared to $4,826 for the United States.

Hospital and professional services each account for about one-third of total health care spending. Expenditures on hospital services totaled $8.6 billion in 2003; spending on inpatient services accounted for 24 percent of total health care expenditures and about three-quarters of all hospital spending. Spending on all professional health care services totaled $8.5 billion, of which $4.9 billion was spent for physician care and $3.6 billion for other professional services. Other professional services (including care provided by nonphysician professionals, clinics, ambulatory surgery centers, and imaging centers) accounted for 14 percent of total health care spending, compared to 19 percent for physician services. Prescription drug spending was $3.5 billion, or about 13 percent of

[1] *National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types.*

[2] *Maryland personal income increased from $198.5 billion to $206.1 billion in 2002–2003.*

total spending in 2003. Nursing home care and home health care totaled $1.9 billion and nearly $1.0 billion, respectively, in 2003—together accounting for 11 percent of health care spending in the state. Public and private payers' expenses associated with plan administration and the net cost of private health insurance accounted for about $2.1 billion in health care spending, or about 8 percent of all health care spending.[3]

Specific health service sectors showed wide variation in rates of growth during 2002-2003 (Figure ES-1). Growth in both hospital outpatient services and physician care was within 1 percentage point of the overall rate.[4] As the major public and private payers reported fee inflation well under the 3-percent increase in the Medicare Economic Index (MEI), the faster growth of total expenditures suggests significant growth in the use of physician services in 2003.

Growth of expenditures for prescription drugs slowed in 2003. After 2 years of double-digit growth, the 9-percent jump of 2003, while still high, will be seen by some as good progress. Slower growth may reflect increased use of generic drugs (which are priced lower than brand-name equivalents) and also more intense competition among generic drug manufacturers. Recent purchaser-driven initiatives such as multitiered formularies and increased use of consumer cost-sharing may also have dampened consumer demand. Nationally, inflation in prescription drugs prices (as reported in the Producer Price Index) was relatively modest in 2002-2003, with prices growing at just 3 percent.

Expenditures for several major service types grew more slowly than total expenditures for all services. Especially noteworthy was the slower spending (6 percent) for hospital inpatient services, the largest category of state health expenditures. The hospital spending increases reflect increased utilization and rate increases approved by the Health Services Cost Review Commission (HSCRC) that averaged about 4 percent for fiscal years 2003-2004.

However, expenditures for other service types grew more quickly. The rapid growth in home health spending (20 percent) is in part the result of higher public sector reimbursements and new initiatives to substitute community-based services for nursing home care when available and medically appropriate. Administrative expenses and the net cost of insurance grew more rapidly than any sector in 2003, except for home health care. The growth reflects expanding surpluses that have accumulated as the gap between premiums, medical, and administrative expenses widened. Recent premium increases may have been based on some payers' decisions to build surplus or by actuaries' pessimistic forecasts that assumed continued double-digit growth in medical expenses.[5]

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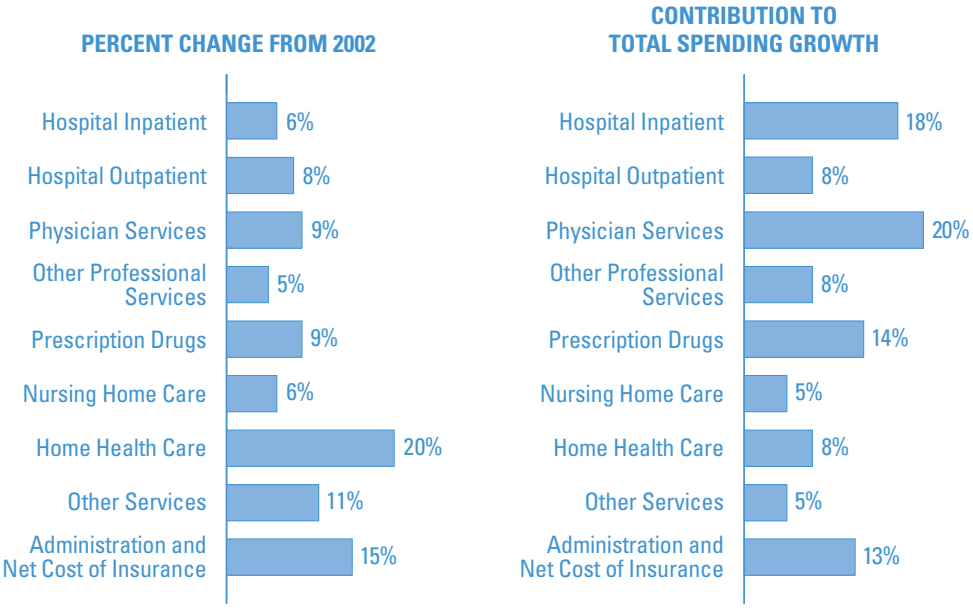
[3] *In earlier reports, the State Health Expenditure Accounts (SHEA) omitted insurer surplus and, therefore, produced a lower estimate of group and individual spending for private insurance in Maryland.*

[4] *An annual MHCC report later in the spring will examine factors driving increases in spending for physician services.*

[5] *Insurers are required to hold reserves under Maryland law. Surpluses include reserves against anticipated claims, as well as funds set aside to account for unexpected changes in health care costs or returns on assets, and funds to finance expenditures on capital assets (such as information technology), or strategic initiatives. The growth of insurer surpluses is the subject of a Spotlight article that accompanies the release of this report.*

As the sizes of the service sectors vary greatly, the growth rates within sectors contributed differently to the overall spending increase in 2003 (Figure 1). Physician services and hospital inpatient care, which increased at rates of 9 percent and 6 percent, respectively, accounted for 38 percent of added health care spending in 2003. Conversely, home health services, which increased by 20 percent, accounted for just 8 percent of the total spending increase with most of that increase paid by government payers.

**FIGURE ES-1**
Changes in Health Care Expenditures, 2002–2003




The health care spending in the public sector, including Medicare, Medicaid, and other government programs such as veterans' benefits, funded 41 percent of total health care spending ($10.8 billion). Medicare, the largest payer in the state, funded 20 percent of total spending, but funded almost 40 percent of inpatient hospital care. Medicare spending grew about 8 percent, approximately in line with the growth in total spending. Increased Medicare spending for inpatient hospital services accounted for 43 percent of total Medicare spending growth.

Medicaid spending accounted for 17 percent of total spending. The program funds 49 percent of nursing home care and two-thirds of home health services. Medicaid spending increased faster than other third-party payers, as the program's expenditures jumped by 15 percent to $4.5 billion in calendar year 2003. Medicaid accounted for 28 percent of the $2.1 billion total increase in health care expenditures in 2003. Per capita spending by Medicare grew 6 percent; per capita spending by Medicaid grew 4 percent. Both growth rates exceeded average national rates.

All private third-party coverage, including commercial and nonprofit insurers, health maintenance organizations (HMOs), and self-insured employer plans, accounted for 39 percent of total health care spending ($10.4 billion). Private insurers financed 52 percent of physician care services, 46 percent of hospital outpatient care, and 37 percent of hospital inpatient care in 2003. Spending for private coverage grew at 8 percent in

2003, an increase of $773 million from 2002. Physician services accounted for about 28 percent of the overall growth in private third-party spending. Private insurance spending per insured resident in Maryland (including Medigap coverage) was less than the national average—approximately $2,645 compared to $3,149 nationally—and the rate of growth in private insurance expenditures in 2003 was slightly lower, 10 percent versus 11 percent nationally.

Out-of-pocket spending (including coinsurance, copayments, deductibles, and full direct payments) grew at 8 percent in 2003, the same rate of growth as in private insurance spending. These results are consistent with recent MHCC insurance coverage reports that found Maryland's uninsured rate was statistically unchanged from 2001-2002 to 2002-2003, although the rate nominally trended upwards. Greater spending for physician services, other professional services, and prescription drugs accounted for 70 percent of the growth in out-of-pocket spending. Prescription drug spending alone accounted for 34 percent of the growth in out-of-pocket spending. These shares comport with usual patterns of out-of-pocket spending and with recent insurer cost containment strategies. Out-of-pocket spending per capita was greater in Maryland than the national average ($944 versus $671), and it grew slightly faster in 2003 (7 percent versus 6 percent).

Enrollment in HMOs grew 5 percent in 2003, with virtually all of the increase occurring among privately insured Marylanders. This increase reverses a 25-percent decline in HMO enrollment over the past 5 years. Recent premium increases, the roll-back of some HMO management practices limiting access, and perhaps better consumer understanding of how to access care may have combined to create the surge in private enrollment. While HMO enrollment under Medicare and Medicaid was essentially flat, the Medicare Modernization Act, which gives seniors strong incentives to participate in private plans, may lead to a surge in enrollment after 2005.[6] Spurred by recent federal legislation and supported by state regulatory changes, new consumer-directed products also began to take root in Maryland in 2003.

Whether the new consumer-directed options will attract segments of the nonelderly population with differing levels of illness is unknown. Most of the population of the United States, and also in Maryland, has low expenditures for health care services. Health care spending is highly skewed: among the nonelderly population, half of the population accounts for less than 4 percent of all health care spending, while 20 percent generates the vast majority—80 percent—of all health expenditures for the nonelderly population. The fact that a relatively small segment of the nonelderly population accounts for nearly all its health care spending means that initiatives aimed at curbing the growth of overall health care spending must attract a significant portion of the higher cost users that account for the bulk of expense.

[6] *The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (PL 108-173) was enacted on December 8, 2003. The act added a prescription drug benefit to Medicare and provides significant incentives for seniors to join private health plans.*

# STATE HEALTH CARE EXPENDITURES

A basic mission of the Maryland Health Care Commission (MHCC) is the dissemination of information to monitor the health care market in Maryland. Such information prominently includes the level and growth of health care spending. This report provides information about health care expenditures by Maryland residents in 2003, and how they differ from expenditures in 2002. It was developed to meet the requirement under Health-General Article, §19-134(g), which directs the MHCC to report annually on total payments in the State for health care services. The estimates provided in this report will help users to understand how aggregate health care spending changed from 2002 to 2003, and how spending levels and growth differed among service categories and the major payer groups in Maryland's health care system.

This year's report incorporates refinements to a number of methodological changes introduced last year to improve estimates of private insurance spending and out-of-pocket spending. These improvements are intended to support presentation of a more consistent time series of information about nongovernmental health care spending in Maryland in future reports. They are documented in the technical notes that are available separately at www.mhcc.state.md.us.

This year's report includes two additional changes that also affect estimates of private health expenditures in Maryland. First, in previous years, MHCC reported medical expenses and administrative costs associated with those expenses; this method omitted expenses associated with additions to insurer surplus (or unobligated funds). This year, the SHEA reconciles total spending starting with premiums earned, accounting for medical expense, administrative costs, and additions to insurer surplus. Second, the 2002 data have been revised to correct for an error in the calculation of out-of-pocket spending in last year's report. This correction has the most impact on those services with large out-of-pocket expenditures, such as prescription drugs.

Finally, this year's report introduces more extensive comparisons of health care spending in Maryland to national averages. With these improvements, MHCC hopes to address the information needs of the various stakeholders in Maryland's health care system more effectively.

## How Much Did Maryland Spend for Health Care?

In 2003, Maryland residents spent $26.5 billion for health care services, averaging $4,811 per person. Total health care spending increased 8.4 percent from 2002–2003, but health care spending per capita increased more slowly—by 7.2 percent—as the State population increased. Per capita spending growth in Maryland approximately equaled the national average in 2003, and the level of per capita spending in Maryland also very nearly equaled the projected U.S. average ($4,826).[7]

**FIGURE 1**
Total Health Care Expenditures in Maryland, 2002 and 2003 ($ billions)

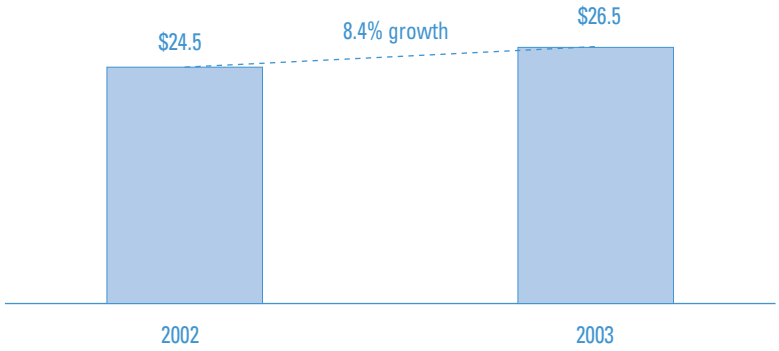
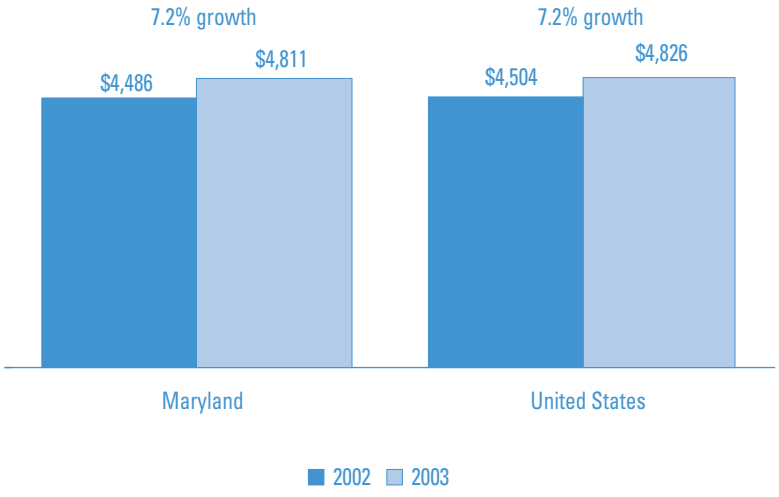



**FIGURE 2**
Per Capita Health Care Expenditures in Maryland and the U.S., 2002 and 2003




[7] *Developed from national health expenditure estimates produced by the Centers for Medicare & Medicaid Services. For details see http:www.mhcc.state.md.us/health_care_expenditures/shea03/technicalnotes.pdf.*

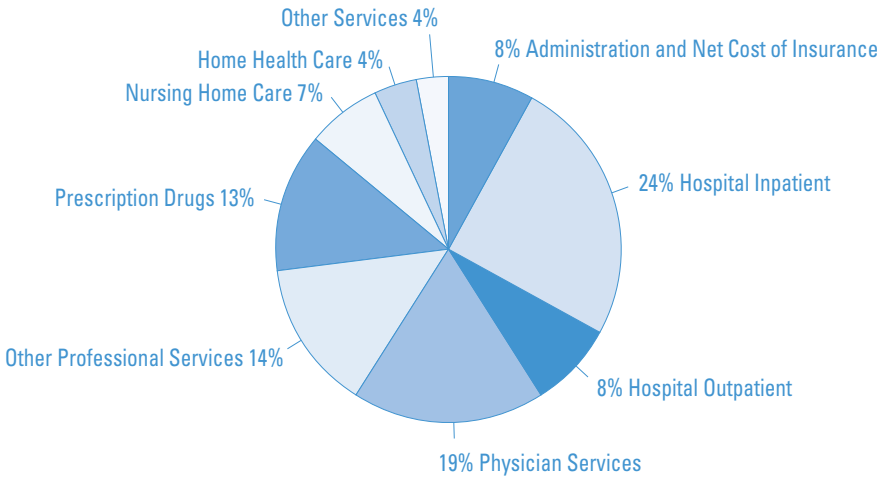
## How Were Maryland's Health Care Dollars Spent?

Nearly one-third of Maryland's health care dollars were spent on hospital care—approximately $8.6 billion in 2003. (Numbers in the figures and tables may not add to totals due to rounding.) Inpatient hospital care accounted for 24 percent ($6.4 billion) of total health care spending; outpatient hospital care accounted for 8 percent ($2.2 billion).

Physician and other professional services together accounted for another one-third of health care spending by Maryland residents in 2003. Approximately 19 percent of health care spending—just over $4.9 billion—was for physician services. Spending for other professional services accounted for 14 percent, or $3.6 billion.

Spending for outpatient prescription drugs in Maryland was 13 percent of total health care spending, totaling $3.5 billion in 2003. Administrative costs and the net cost of health insurance (called "addition to surplus") together accounted for 8 percent of total health care spending.

**FIGURE 3**
Percent of Total Health Care Expenditures in Maryland by Type of Service, 2003




## How Was Maryland's Health Care Paid For?

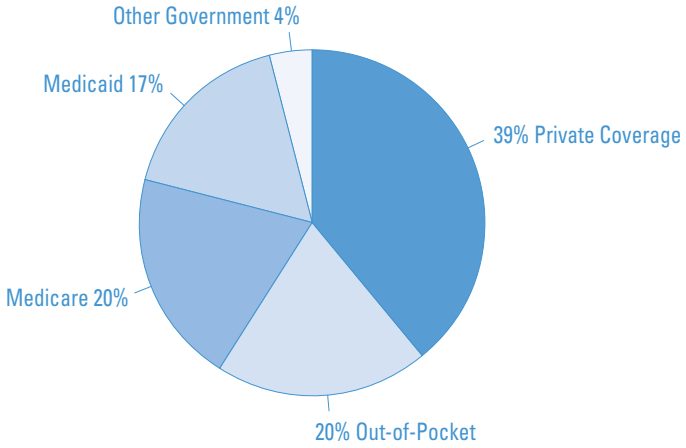
Many more Maryland residents have some form of private health insurance as their primary source of coverage than have public coverage. However, in Maryland as in other states, public insurance programs cover many of those who have the greatest health care needs—such as elderly and disabled residents. As a result, expenditures covered by insurance in Maryland are almost evenly divided between the private and public sectors.

Medicare, the federal program that finances care for the elderly and disabled, is the largest government source of payment for health care in Maryland. In 2003, Medicare accounted for 20 percent of total health care spending in the State.

Medicaid is the state program that finances care for low-income Marylanders in certain eligibility categories—including low-income mothers and children, as well as costs for low-income elderly or disabled residents that Medicare does not pay. In 2003, Medicaid accounted for 17 percent of total expenditures for health care in Maryland.

Together, both programs accounted for 37 percent of health care expenditures in 2003, compared to 39 percent paid by private insurance arrangements—including commercial insurance, health maintenance organizations (HMOs), and self-insured employer health plans. Various other small government programs—including the military and veterans programs and various targeted government assistance programs—accounted for 4 percent of the total. Marylanders paid 20 percent of the cost of their health care—$5.2 billion in 2003—out-of-pocket.

**FIGURE 4**
Percent of Total Health Care Expenditures in Maryland by Source of Payment, 2003

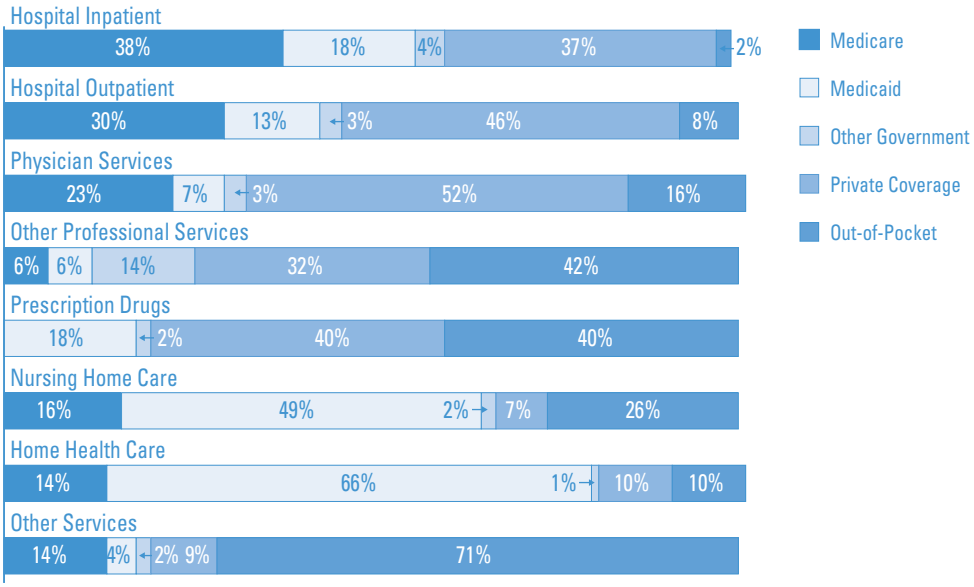



Because Maryland's various payers serve different populations and provide different coverage for some health care services, their importance in financing health care varies by type of service. Public programs are the largest source of payment for inpatient hospital care and nursing home care. In 2003, they financed 61 percent of inpatient hospital care and 67 percent of nursing home care.

Medicare is the largest single insurer for inpatient hospital care. Accounting for 38 percent of all expenditures for inpatient hospital care in 2003, Medicare financed a slightly larger proportion of inpatient care than all private insurance combined (37 percent). Medicaid and other government programs paid for nearly 23 percent of inpatient care in 2003.

Private insurance is the largest payer for both outpatient hospital care and physician services in Maryland, financing nearly 46 percent of all outpatient hospital care and 52 percent of expenditures for physician services in 2003. Nevertheless, Medicare is still a major source of payment for both types of expenditures, accounting for 30 percent of expenditures for outpatient hospital care and 23 percent of expenditures for physician services.

**FIGURE 5A**
Percent of Expenditures by Type of Service and Source of Payment, 2003




*Note: Prescription drug expenditures for Medicare were less than 0.5%*

As in other states, Medicaid is the largest source of financing for nursing home care and home health care. In part, this is because conventional insurance provides little coverage for these services. In 2003, Medicaid paid for 49 percent of all expenditures for nursing home care in Maryland, and nearly 66 percent of expenditures for home health care. In contrast, private insurance and Medicare combined accounted for 23 percent of expenditures for nursing home care, and 24 percent of expenditures for home health care.

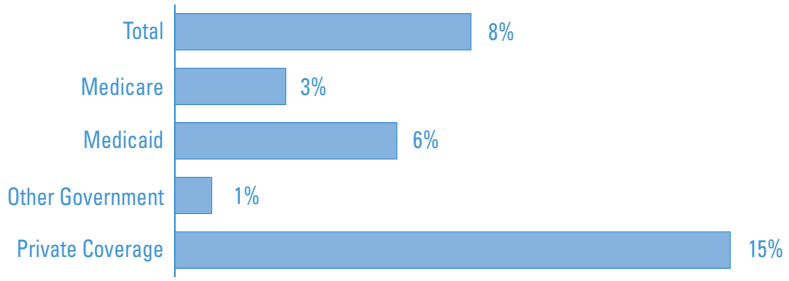
While Marylanders paid a relatively low proportion of the cost of hospital care—and inpatient hospital care in particular—out-of-pocket, they paid 26 percent of the cost of nursing home care out-of-pocket in 2003. In addition, nearly 16 percent of expenditures for physician care and 42 percent of other professional services were paid out-of-pocket.

Eighty-one percent of expenditures for prescription drugs were financed by private insurance plans and consumer out-of-pocket spending. Maryland residents paid as much out-of-pocket for prescription drugs (40 percent) as private insurers paid.

The Medicaid program accounted for 18 percent of spending for prescription drugs, a disproportionate amount given the size of the Medicaid population. In 2003, Medicare covered outpatient prescription drugs only for beneficiaries enrolled in managed care; as a result, Medicare accounted for a negligible share of total expenditure for prescription drugs. Medicare prescription drug spending will climb rapidly after January 2006, when Part D benefits enacted under the Medicare Modernization Act of 2003 begin.

The administrative cost associated with public insurance programs accounted for just 3 percent of Medicare expenditures and 6 percent of Medicaid expenditures in Maryland. Higher expenditures for the administration of Medicaid are largely related to the greater complexity of determining eligibility for the program. However, the administrative expense and net cost of private insurance accounted for 15 percent of total private insurance expenditures in 2003.

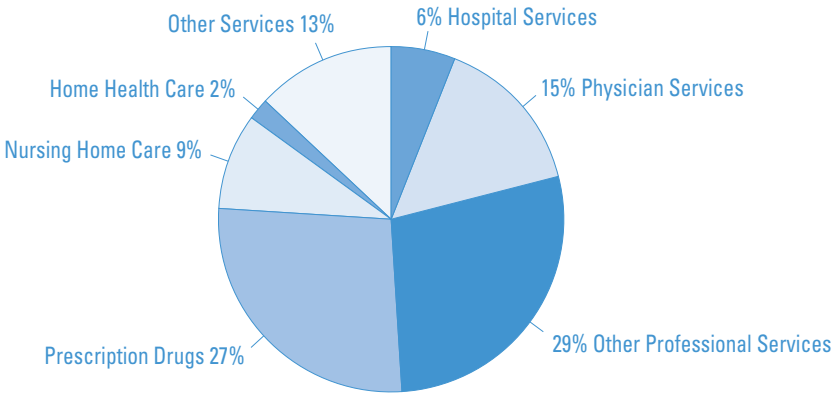
**FIGURE 5B**
Percent of Expenditures for Administrative Cost and Net Cost of Insurance by Source of Payment, 2003




While Marylanders paid 20 percent of all health care expenditures out-of-pocket in 2003, these expenditures included a much larger share of total spending for some services and a smaller share for others. Differences in out-of-pocket spending for specific service categories reflect both private insurance and Medicare benefit designs that cover hospital and physician care more extensively than other professional services, prescription drugs, or nursing home and home health care.

In 2003, other professional services and prescription drugs together accounted for 56 percent of consumer out-of-pocket spending. In contrast, hospital and physician services accounted for just 6 percent and 15 percent of out-of-pocket spending, respectively. Home health care and nursing home care together accounted for about 11 percent of out-of-pocket spending for health care.

**FIGURE 6**
Out-of-Pocket Spending by Type of Service, 2003

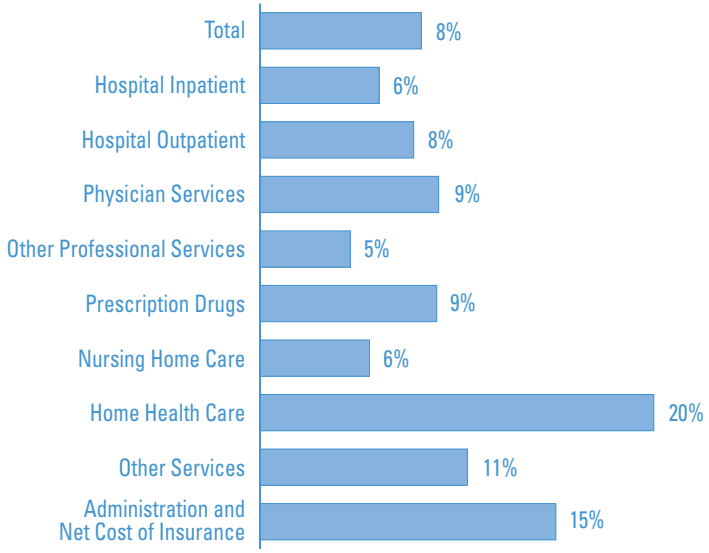


## How Much Did Health Care Expenditures Grow in Maryland?

Total health care spending in Maryland grew by 8 percent in 2003, although spending for some service types grew faster. The fastest-growing components of spending included physician services (which grew 9 percent), prescription drugs (9 percent), and home health care (20 percent). The sharp increase in spending for home health care—a relatively small component of total health care spending—reflected expanded eligibility for Medicaid-covered services in home and community-based settings and an increase in wages paid to community workers.[8] The administrative and net cost of insurance also grew rapidly in Maryland (15 percent), largely reflecting additions to private insurer surplus in 2003.

Expenditures for hospital care grew more slowly—6 percent and 8 percent, respectively, for inpatient and outpatient care. These increases reflected the Health Services Cost Review Commission (HSCRC) updates to inpatient and outpatient payment rates during the year.[9] Spending for other professional services and nursing home care also grew just by 5 percent and 6 percent, respectively.

**FIGURE 7**
Percent Change in Total Expenditures by Type of Service, 2002–2003



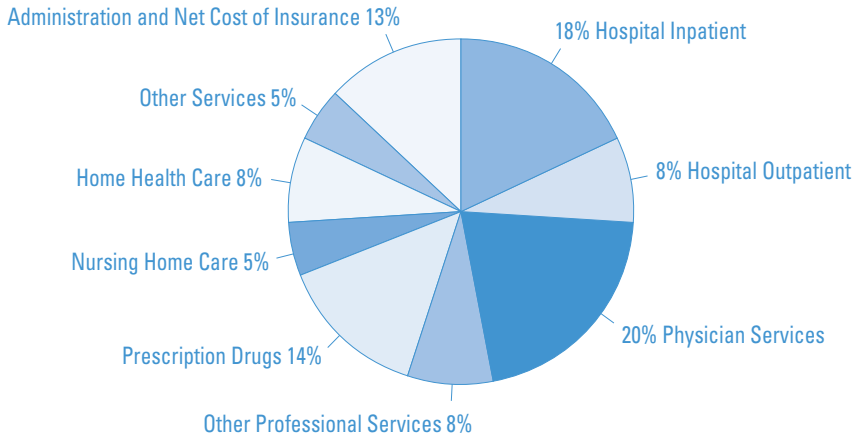

[8] *Maryland Medicaid funds six waivers for home and community-based services (HCBS), that served just over 12,300 people as of January 2004. These waivers provide services for individuals with developmental disabilities, medically fragile children and children with autism spectrum disorder, and elderly and other adults with physical disabilities or traumatic brain injury.*

[9] *In fiscal year 2003 (first half of CY 2003) HSCRC updated both inpatient and outpatient rates by 3.2 percent and in fiscal year 2004 (last half of CY 2003) by 5.2 percent and 4.3 percent, respectively.*

## What Types of Services Accounted for the Growth in Expenditures?

Growth in expenditures for physician services, inpatient care, and prescription drugs, as well as growth in the administrative and net cost of private insurance, accounted for two-thirds of the increase in total expenditures from 2002 to 2003. Increased spending for physician services and inpatient care accounted for 20 percent and 18 percent of total spending growth, respectively, while greater spending for prescription drugs and net insurance costs accounted for 14 percent and 13 percent of total spending growth, respectively. In 2003, Marylanders paid $417 million more for physician services, $376 million more for inpatient care, and $293 million more for prescription drugs than in 2002. They also paid $275 million more in 2003 for the administration and the net cost of insurance than in 2002.

**FIGURE 8**
Change in Expenditures by Type of Service as a Percent of Total Change, 2002–2003

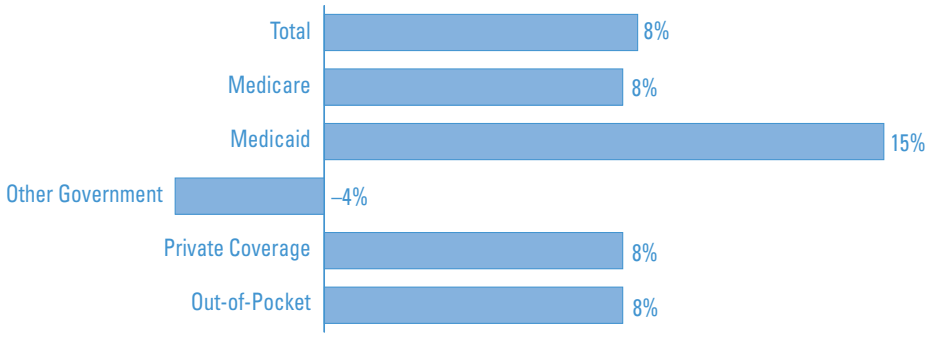



## What Payers Accounted for Most of the Growth in Expenditures?

In 2003, the cost of Medicaid (including expenditures for health care and administration) grew faster than that of either Medicare or private insurance. The cost of Medicare and private insurance each increased approximately 8 percent in 2003. The cost of Medicaid increased 15 percent, reflecting both higher utilization in the program and the shifting of prescription drug subsidies for low-income Marylanders aged 65 or older from other government programs into Medicaid.[10] Consumer out-of-pocket spending grew in proportion to Medicare and private insurance expenditures—by approximately 8 percent.

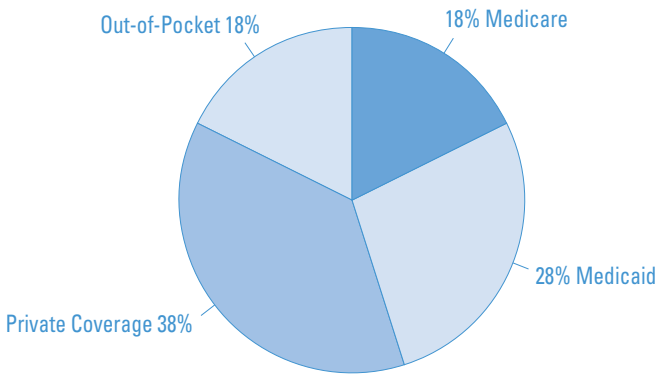
*[10] HealthChoice, Maryland's 1115 waiver project, was amended effective October 1, 2002, to extend Medicaid pharmacy coverage to persons not otherwise eligible for Medicaid. Federal matching funds cover 50 percent of the cost of this coverage. Most of those now enrolled in the Medicaid pharmacy program had previously been enrolled in the State-funded Maryland Pharmacy Assistance Program.*

**FIGURE 9**
Percent Change in Total Expenditures by Source of Payment, 2002–2003




Consistent with the relatively fast growth of Medicaid expenditures in Maryland in 2003, Medicaid paid 28 percent of every additional dollar spent for health care in 2003 (26 percent, net of the reduction in spending by other government programs). However, the growth of private insurance expenditures accounted for a much greater share of the increase in total spending—38 percent—reflecting the much larger role of private insurance in financing health care in Maryland. Medicare paid 18 percent of the additional health care expenditures in 2003, the same proportion of additional expenditures as consumers paid out-of-pocket.

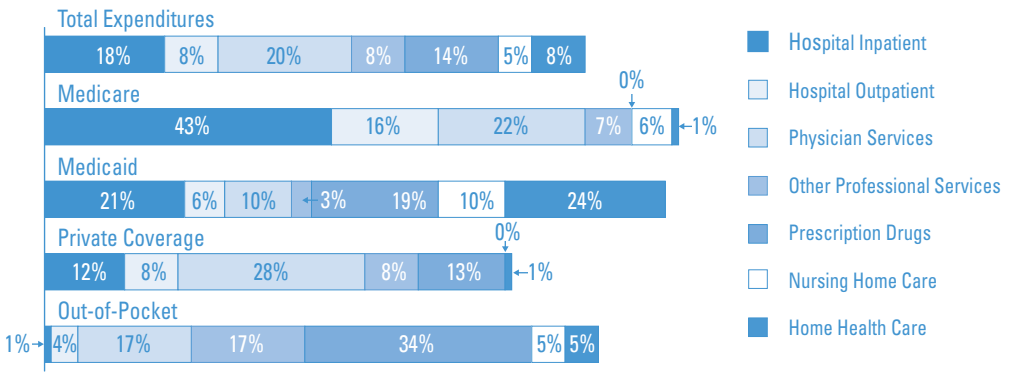
**FIGURE 10**
Growth in Expenditures by Selected Source of Payment as a Percent of Total Expenditure Growth, 2002–2003




*Note: Figure omits a 2-percent reduction in spending by other government programs.*

Differences in the growth of expenditures within service types affected Maryland's third-party payers differently, in general due to differences in the extent to which public and private insurance plans cover different services. Higher spending for hospital care accounted for 59 percent of the increase in Medicare spending in 2003; increased spending for inpatient services alone accounted for 43 percent of the increase in Medicare spending. In contrast, increased spending for inpatient and outpatient care accounted for just 27 percent of the change in spending by Medicaid and 20 percent of the increase in spending by private insurance.

**FIGURE 11**
Change in Expenditures by Type of Service as a Percent of Total Change for Source of Payment, 2002–2003

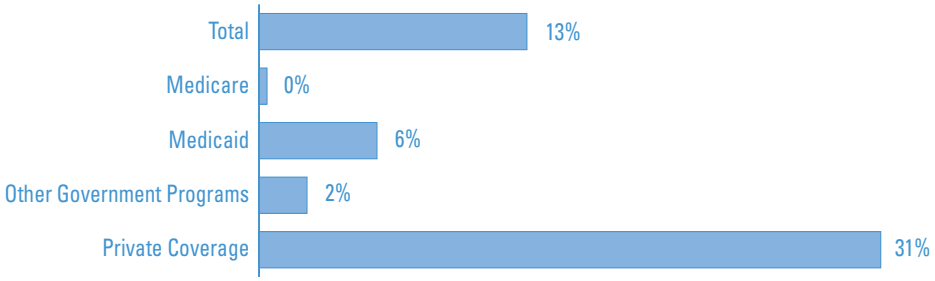



*Note: Does not equal 100 percent because administrative expense is not shown.*

The relatively fast growth of expenditures for physician services affected both Medicare and private insurers to a larger degree than other payers in Maryland. Greater spending for physicians accounted for 22 percent of Medicare's increase in total spending and 28 percent of the increase in total spending by private insurers.

Increased spending for prescription drugs accounted for just 13 percent of the growth in private insurance expenditures, but 34 percent of the increase in consumer out-of-pocket expenditures in 2003. Growth in out-of-pocket spending on prescription drugs is consistent with a variety of private insurance benefit changes, including increased deductibles and higher copayments in multitiered drug formularies. Growth in spending for prescription drugs accounted for 19 percent of the increase in Medicaid spending, reflecting the movement of some low-income residents from Maryland's Pharmacy Assistance Program into the Medicaid pharmacy program (see footnote 10).

**FIGURE 12**
Change in Expenditures for Administration and the Net Cost of Insurance as a Percent of Total Change for Source of Payment, 2002–2003



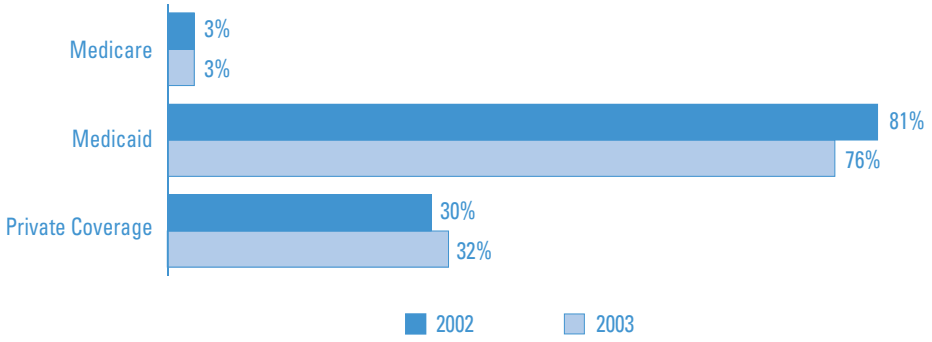

*Note: 0 percent indicates less than 0.5 percent.*

Increases in administrative cost accounted for very small shares of the increase in either Medicare or Medicaid expenditures in 2003. However, together with the net cost of insurance, it accounted for nearly a third of the increase in expenditures for private insurance in Maryland (31 percent). Virtually all of this increase is associated with additions to private insurer surplus in 2003 (premiums that exceed medical benefit expense and administrative cost). Insurers' surplus may be used for strategic reasons (including protection of market share or unanticipated changes in medical costs or rates of return to investment), to fund capital expenditures such as information systems, or to pay dividends to shareholders of for-profit plans.

## Did HMOs Have a Different Cost Experience?

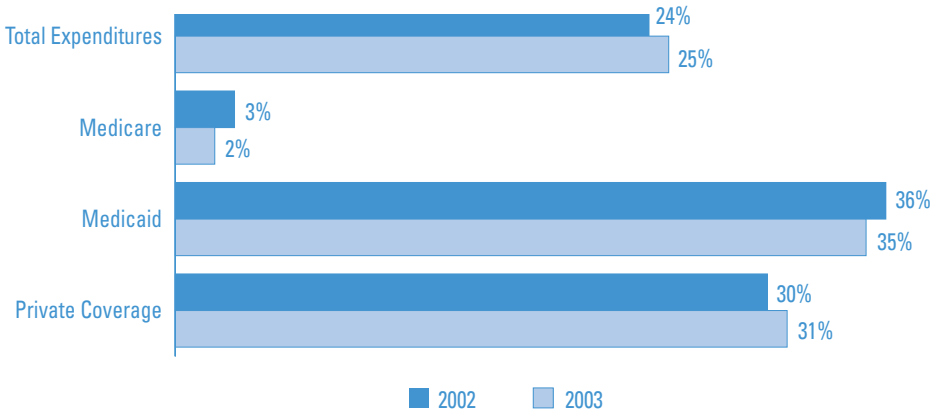
In 2003, 32 percent of privately insured Marylanders were enrolled in HMOs, compared to 83 percent of Medicaid beneficiaries and 3 percent of Medicare beneficiaries. Reversing a 6-year trend of declining HMO enrollment, private HMO enrollment increased by 2 percentage points in 2003—a 5-percent increase in the number of enrollees. HMO enrollment among Medicare and Medicaid beneficiaries was stable.

**FIGURE 13**
HMO Enrollment as a Percent of Total Enrollment by Major Third-Party Payer, 2002 and 2003




HMOs accounted for 25 percent of total health care expenditures in Maryland in 2003, but a larger share of expenditures by both Medicaid and private insurers. Approximately 35 percent of Medicaid expenditures were for beneficiaries enrolled in HMO plans. Among Maryland residents with private coverage, 31 percent of expenditures were associated with those enrolled in HMOs. The proportion of total expenditures financed through HMOs increased slightly (from 24 percent in 2002 to 25 percent in 2003), reflecting the increase in privately insured HMO enrollment.

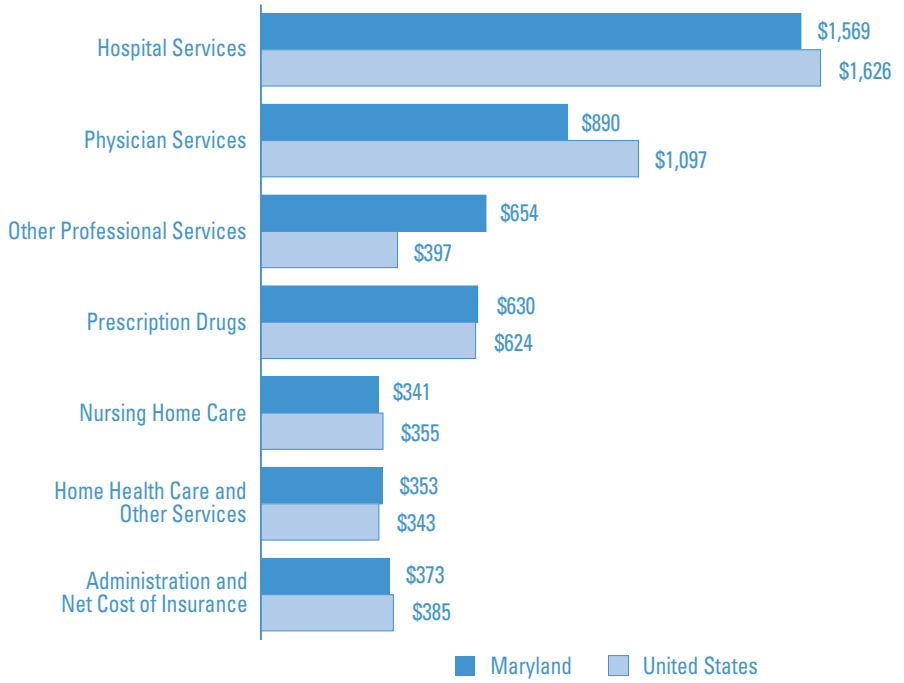
**FIGURE 14**
HMO Expenditures as a Percent of Total Expenditures by Major Third-Party Payer, 2002 and 2003




## How Did Maryland Compare to the Nation?

Spending per capita for all health care services in Maryland is near the national average, but Maryland's pattern of spending by service type differs. Specifically, Marylanders spend much less per capita for physician care, but much more for other professional services. In 2003, Marylanders spent $1,544 per capita for physician and nonphysician professional services combined, compared to the U.S. average of $1,494. Marylanders also spent slightly less for hospital and nursing home care, about 4 percent less than the national average.

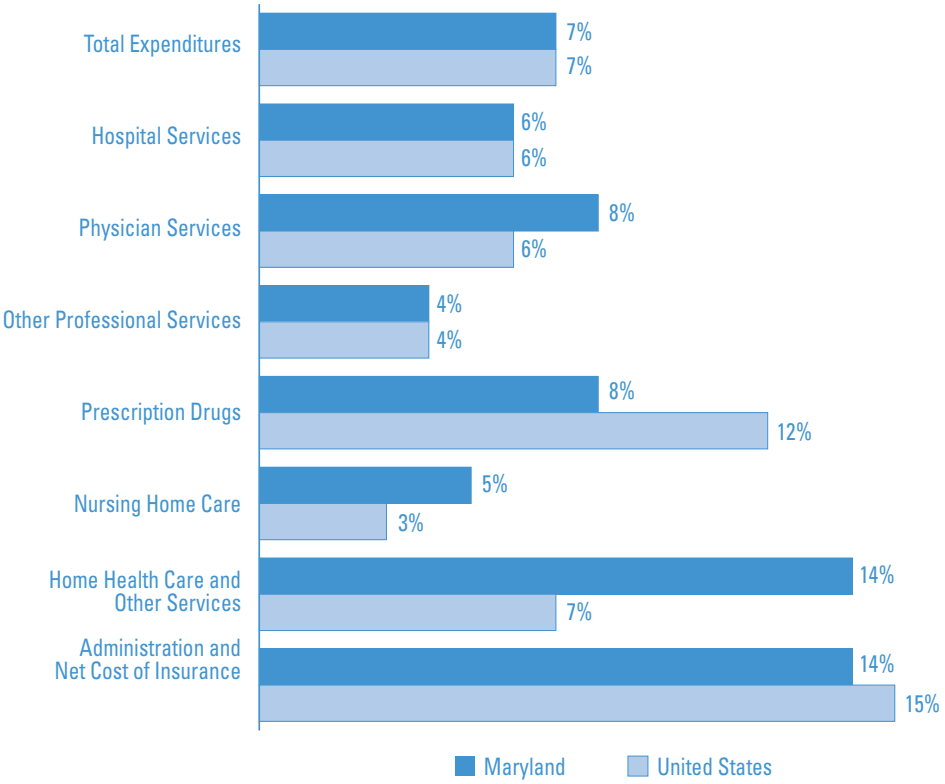
**FIGURE 15**
Per Capita Expenditures in Maryland and the U.S. by Type of Service, 2003




*Note: Home Health Care and Other Services are shown as one category since payments provided through Home and Community-based waivers in the Medicaid program are included in the Other Services group in the National Health Expenditure Accounts.*

The growth in spending per capita for hospital care in Maryland was approximately equal to the national average in 2003. Thus, if current rates of growth in per capita spending for hospital care continue, per capita spending for hospital services in Maryland will remain below the national average. Per capita expenditures for physician care in Maryland rose faster than the national average in 2003—8 percent, compared to 6 percent nationally—while per capita expenditures for other professional services increased more slowly. This pattern suggests that the level of expenditure per capita for physician care relative to other professional services is moving toward the national average.

**FIGURE 16**
Percent Growth in Per Capita Expenditures in Maryland and the U.S. by Type of Service, 2002–2003

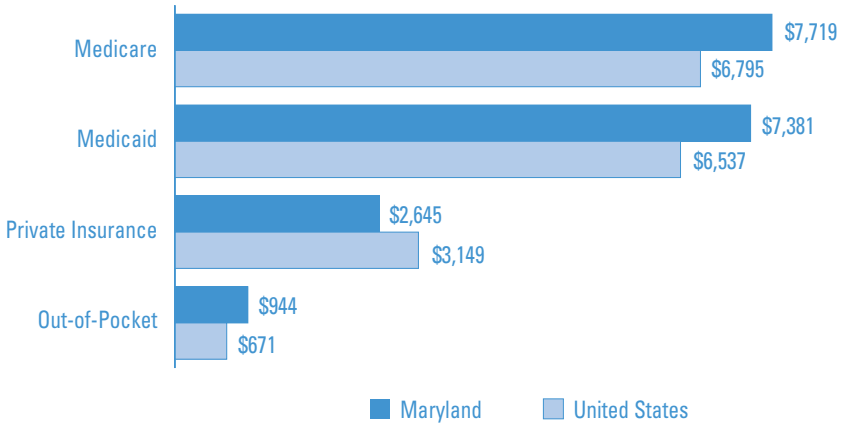



Per capita spending for prescription drugs in Maryland grew much more slowly in Maryland than the national average—8 percent versus 12 percent nationally. In recent years, prescription drug spending has increased faster than the national average. The slowing of spending growth in Maryland suggests that it tracks with longer term national trends, despite some year-to-year variation. Per capita spending to finance administration and the net cost of insurance are on par with the United States, and are growing at similar rates.

Both major public insurance programs—Medicare and Medicaid—paid more per beneficiary in Maryland than the national average in 2003. In 2003, expenditures

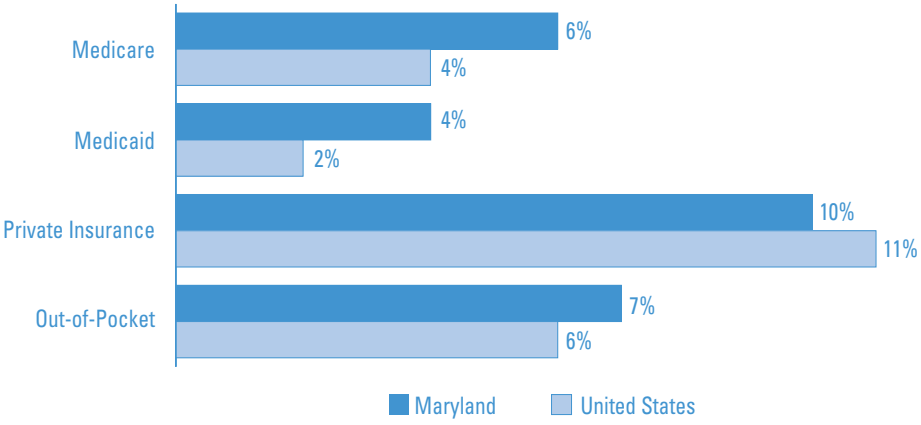
for Medicare beneficiaries were about 14 percent more than the national average ($7,719 versus $6,795), while Medicaid paid 13 percent more per beneficiary ($7,381 versus $6,537). Moreover, per capita spending in both programs grew faster than the national average, especially in Medicaid. In 2003, Medicare spending per capita in Maryland increased 6 percent, compared to 4 percent nationally. Medicaid spending per capita increased 4 percent, compared to 2 percent nationally. The faster growth in Maryland's spending per Medicaid beneficiary largely reflected an increase in the number of low-income residents eligible for Medicaid—including the addition of beneficiaries for prescription drug coverage under Maryland's new waiver.

**FIGURE 17**
Per Capita Expenditures in Maryland and the U.S. by Source of Payment, 2003




Private insurance spending per insured resident in Maryland was less than the national average—approximately $2,645 compared to $3,149 nationally, and the rate of growth in private insurance expenditures in 2003 was lower: 10 percent versus 11 percent nationally. In contrast, out-of-pocket spending per capita was much greater in Maryland than the national average ($944 versus $671), and it grew faster in 2003 (7 percent versus 6 percent). Higher cost-sharing requirements in private insurance plans, intended to slow the growth of insured health costs, may account for the faster growth of out-of-pocket per capita expenditures in Maryland.

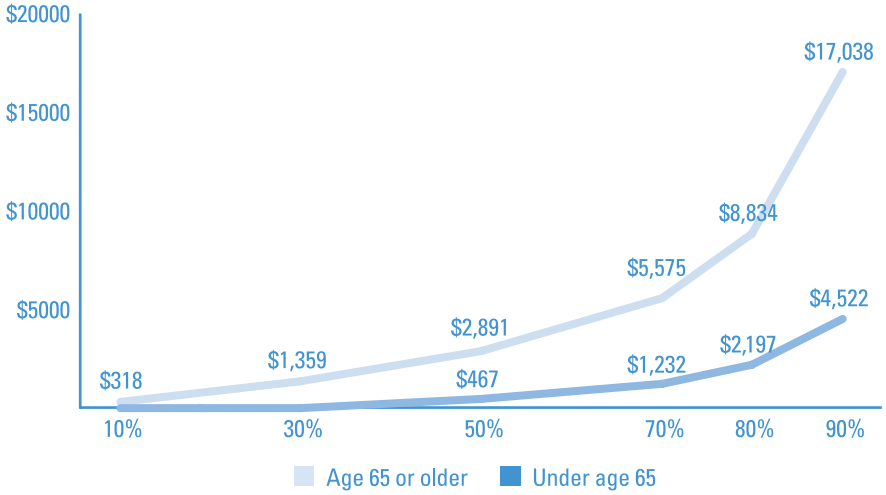
**FIGURE 18:**
Percent Change in Per Capita Expenditures in Maryland and the U.S. by Source of Payment, 2002–2003



## What Proportion of the Population Has High Health Care Expenditures?

Most of the population of the United States, and also in Maryland, has low expenditures for health care services. In 2001, half the population under age 65 residing in the community used less than $467 per person, and 80 percent used less than $2,197.[11] Just 10 percent used more than $4,522. Health care spending is highly skewed: 78 percent of the population under age 65 had per capita health care spending below the average for this cohort, $1,944. As a point of reference, for a working-age adult, the national average premium for employer-sponsored health insurance in 2001 was $2,889.[12]

**FIGURE 19**
Distribution of Per Capita Health Expenditures: U.S. Population Over and Under Age 65, 2001



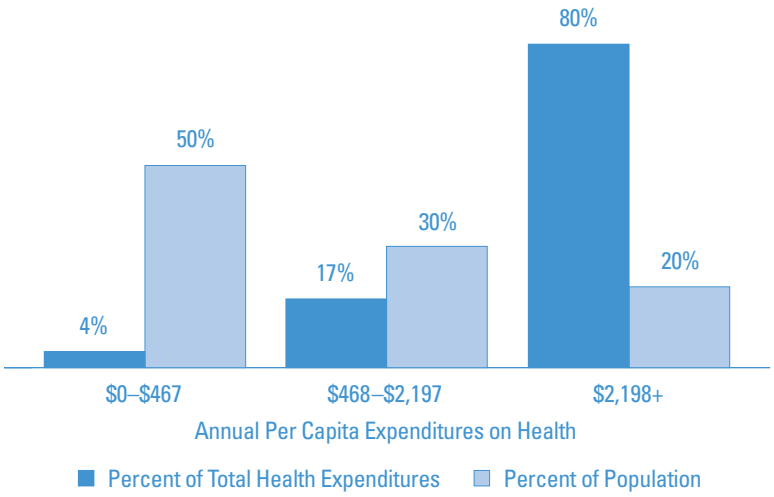

*Source: AHRQ, Medical Expenditure Panel Survey, 2001.*

Among the nonelderly population, half of the population accounted for less than 4 percent of all health care spending for this age group. Another 30 percent used about 17 percent of the care, while 20 percent generated the vast majority—80 percent—of all health expenditures for the nonelderly population. Consequently, employer and insurer efforts directed at curbing health care use by the "typical" nonelderly person have a small effect on the overall level of health care spending in this age group. Reducing spending by half for the lowest-cost 80 percent of the nonelderly population would reduce total spending by just 10 percent. Both public and private payers have increasingly tailored disease management and various utilization control programs to coordinate care and better manage expenditures, but evidence about whether these programs save money is limited.

*[11] The data presented in this section come from the Medical Expenditure Panel Survey - Household Component (MEPS-HC) for CY2001 (the most recent year available) and pertain only to persons living in the community. Those residing in nursing homes or in other institutional settings, and their associated health care spending, were not included in the survey. Most of the institutionalized have high expenditures for health care and would likely qualify as high-cost users. Less than 1 percent of the Maryland's population is institutionalized.*

*[12] Medical Expenditure Panel Survey, http://www.meps.ahrq.gov/MEPSDATA/ic/2001/Tables_I/TIC1.pdf, accessed December 6, 2004.*

**FIGURE 20**
Distribution of U.S. Health Care Expenditures and Population, Ages 0–64, 2001




*Source: AHRQ, Medical Expenditure Panel Survey, 2001.*

Average health care expenditures among the population over age 65 are about three times the average among those under age 65, and a larger share of the elderly population has relatively high expenditures. In 2001, the elderly comprised 13 percent of the population but accounted for 34 percent of all health care spending. Health care spending is also highly skewed among the elderly: 74 percent had per capita spending below the average for this age group, $6,791. Half of the elderly population used less than $2,891 per person, but 20 percent used more than $17,064 per person, accounting for 69 percent of all health care used by the elderly. Among either the population under age 65 or the elderly, per capita spending accelerates rapidly above the 80th population percentile ranked by expenditures per capita.

Persons with health care costs above the 80th percentile are more likely than the population as a whole to have at least one hospitalization and are much more likely to have more than one hospitalization. In 2001, 27 percent of high-cost users under age 65 and 75 percent of high-cost users over age 65 were hospitalized at least once during the year. In contrast, among the large majority of the population—those with expenditures below the 80th percentile—just 1 percent were hospitalized during the year, including less than 1 percent of the population under age 65 and 7 percent of the population aged 65 or older. Taken together, the top 20 percent of the population accounts for nearly all (97 percent) of total spending on inpatient care. Among the nonelderly population, they accounted for 99 percent of inpatient care in 2001; among the elderly, they accounted for nearly 94 percent. Applying the 97-percent figure to Maryland inpatient spending in 2003, high-cost users (about 1 million people) accounted for an estimated $6.2 billion of the $6.4 billion inpatient total and virtually all of the 680,000 inpatient stays.[13] Although high-cost users are almost exclusively the

[13] *Had the institutionalized population been included in the MEPS-HC survey, the high-cost share of inpatient spending might have been slightly higher.*

consumers of inpatient care, a majority of this population is not hospitalized during the year and has no inpatient expenditures.

**FIGURE 21**
Percent of the U.S. Population Hospitalized Once or More by Relative Total Per Capita Expenditure and Age Cohort, 2001

| | Under 65 | 65 and older | Total |
|---|---|---|---|
| 0–80th Percentile | 0.7% | 6.6% | 1.5% |
| >80th Percentile | 27.2% | 75.0% | 33.3% |

*Source: AHRQ, Medical Expenditure Panel Survey, 2001 .*

High-cost users account for 71 percent of all physician care. Among the nonelderly population, high-cost users account for 76 percent of all physician expenditures; among the elderly population, the top 20 percent of users account for 56 percent of physician care used by this age group. In Maryland in 2003, high-cost users accounted for an estimated $3.5 billion of the $4.9 billion spent for physician care.

The top 20 percent of users also accounted for 59 percent of spending for prescription drugs. Among the nonelderly population, high-cost users generated 71 percent of all drug expenditures, but among the elderly population, the top 20 percent of users accounted for just 34 percent of total expenditures for prescription drugs. High-cost users generated an estimated $2.1 billion of the nearly $3.5 billion expended for prescription drugs in Maryland in 2003.

For nonelderly high-cost users without a hospital admission, health care spending was concentrated about equally in physician care, prescription drugs, and other professional services. This spending pattern differed from that among the lower-cost users, where expenditures for physician care were more prominent than spending for either prescription drugs or other professional services.

Among nonelderly high-cost users with a hospital admission, inpatient care accounted for 51 percent of their total health care spending. As in high-cost users without a hospital admission, physician services accounted for 27 percent of annual health care spending expenditures, but the share allocated to prescription drugs was much lower.

**FIGURE 22**
Expenditure by Type of Service as a Percent of Total Expenditure for the Nonelderly Population by Relative Total Per Capita Expenditure and Whether Hospitalized, 2001

| NOT HOSPITALIZED | Hospital Inpatient | Physician Services | Prescription Drugs | Other Professional Services | Hospital Outpatient | All Other Services |
|---|---|---|---|---|---|---|
| 0–50th Percentile | n/a | 38% | 20% | 31% | 4% | 7% |
| 50th–80th Percentile | n/a | 30% | 28% | 27% | 9% | 6% |
| 80th–100th Percentile | n/a | 27% | 28% | 27% | 15% | 3% |

| HOSPITALIZED | Hospital Inpatient | Physician Services | Prescription Drugs | Other Professional Services | Hospital Outpatient | All Other Services |
|---|---|---|---|---|---|---|
| 0–50th Percentile | 13% | 43% | 32% | 4% | 3% | 5% |
| 50th–80th Percentile | 39% | 36% | 13% | 5% | 5% | 1% |
| 80th–100th Percentile | 51% | 27% | 9% | 5% | 6% | 2% |

*Source: AHRQ, Medical Expenditure Panel Survey, 2001 .*

The balance of this report offers detailed tables of the information presented in the preceding sections. These tables offer additional detail about changes in health care spending in Maryland and nationally from 2002 to 2003.

# SUPPORTING TABLES

# Health Care Expenditures by Type of Service

## Table 1A: Total Maryland Health Care Expenditures ($ thousands), 2003

| Expenditure Components | GOVERNMENT SECTOR | | | | | PRIVATE SECTOR | | TOTAL EXPENDITURES |
|---|---|---|---|---|---|---|---|---|
| | | Medicaid | | | Other | | | |
| | Medicare | Total | Traditional | HealthChoice | Government | Private Coverage | Out-of-Pocket | |
| **TOTAL HEALTH EXPENDITURES** | **$5,206,310** | **$4,544,367** | **$2,935,949** | **$1,608,418** | **$1,104,521** | **$10,444,435** | **$5,202,947** | **$26,502,580** |
| Hospital Services | | | | | | | | |
| Inpatient | 2,454,349 | 1,173,134 | 640,309 | 532,825 | 284,107 | 2,382,763 | 106,249 | 6,400,602 |
| Outpatient | 681,873 | 290,370 | 118,355 | 172,015 | 57,840 | 1,030,985 | 184,381 | 2,245,448 |
| Physician Services | 1,111,775 | 352,943 | 75,719 | 277,224 | 135,943 | 2,536,790 | 766,568 | 4,904,020 |
| Other Professional Services | 230,895 | 213,014 | 133,933 | 79,081 | 490,760 | 1,168,868 | 1,499,537 | 3,603,075 |
| Prescription Drugs | 6,598 | 607,592 | 437,022 | 170,570 | 57,308 | 1,402,750 | 1,397,354 | 3,471,601 |
| Nursing Home Care | 304,903 | 917,120 | 875,619 | 41,501 | 42,001 | 133,055 | 481,951 | 1,879,029 |
| Home Health Care | 135,572 | 653,107 | 563,975 | 89,132 | 7,883 | 101,934 | 95,802 | 994,297 |
| Other Services | 128,532 | 42,365 | 34,756 | 7,608 | 21,954 | 84,713 | 671,105 | 948,668 |
| Administration and Net Cost of Insurance | 151,815 | 294,721 | 56,261 | 238,461 | 6,727 | 1,602,577 | n/a | 2,055,840 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

## Table 1B: Total Maryland Health Care Expenditures ($ thousands), 2002

| Expenditure Components | GOVERNMENT SECTOR | | | | | PRIVATE SECTOR | | TOTAL EXPENDITURES |
|---|---|---|---|---|---|---|---|---|
| | | Medicaid | | | Other | | | |
| | Medicare | Total | Traditional | HealthChoice | Government | Private Coverage | Out-of-Pocket | |
| **TOTAL HEALTH EXPENDITURES** | **$4,830,429** | **$3,966,085** | **$2,529,659** | **$1,436,426** | **$1,151,512** | **$9,671,300** | **$4,833,136** | **$24,452,462** |
| Hospital Services | | | | | | | | |
| Inpatient | 2,290,850 | 1,051,450 | 561,596 | 489,854 | 290,754 | 2,290,510 | 101,057 | 6,024,621 |
| Outpatient | 621,573 | 257,229 | 103,265 | 153,964 | 58,893 | 971,197 | 170,415 | 2,079,308 |
| Physician Services | 1,029,158 | 293,878 | 67,001 | 226,877 | 138,891 | 2,323,587 | 702,006 | 4,487,519 |
| Other Professional Services | 206,161 | 196,335 | 125,494 | 70,841 | 491,792 | 1,110,019 | 1,437,768 | 3,442,075 |
| Prescription Drugs | 6,154 | 497,394 | 342,201 | 155,193 | 98,662 | 1,303,315 | 1,272,853 | 3,178,378 |
| Nursing Home Care | 283,928 | 859,513 | 820,619 | 38,894 | 38,343 | 133,247 | 462,818 | 1,777,850 |
| Home Health Care | 131,104 | 513,432 | 424,951 | 88,481 | 6,320 | 97,119 | 77,426 | 825,401 |
| Other Services | 111,333 | 36,383 | 28,441 | 7,942 | 20,020 | 79,797 | 608,794 | 856,326 |
| Administration and Net Cost of Insurance | 150,167 | 260,471 | 56,091 | 204,380 | 7,838 | 1,362,509 | n/a | 1,780,985 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

### Table 1C: Rate of Growth in Expenditures by Type of Service and Source of Payment, 2002–2003

| Expenditure Components | GOVERNMENT SECTOR | | | | | PRIVATE SECTOR | | TOTAL EXPENDITURES |
|---|---|---|---|---|---|---|---|---|
| | | Medicaid | | | Other | | | |
| | Medicare | Total | Traditional | HealthChoice | Government | Private Coverage | Out-of-Pocket | |
| **TOTAL HEALTH EXPENDITURES** | **7.8%** | **14.6%** | **16.1%** | **12.0%** | **–4.1%** | **8.0%** | **7.7%** | **8.4%** |
| Hospital Services | | | | | | | | |
| Inpatient | 7.1 | 11.6 | 14.0 | 8.8 | –2.3 | 4.0 | 5.1 | 6.2 |
| Outpatient | 9.7 | 12.9 | 14.6 | 11.7 | –1.8 | 6.2 | 8.2 | 8.0 |
| Physician Services | 8.0 | 20.1 | 13.0 | 22.2 | –2.1 | 9.2 | 9.2 | 9.3 |
| Other Professional Services | 12.0 | 8.5 | 6.7 | 11.6 | –0.2 | 5.3 | 4.3 | 4.7 |
| Prescription Drugs | 7.2 | 22.2 | 27.7 | 9.9 | –41.9 | 7.6 | 9.8 | 9.2 |
| Nursing Home Care | 7.4 | 6.7 | 6.7 | 6.7 | 9.5 | –0.1 | 4.1 | 5.7 |
| Home Health Care | 3.4 | 27.2 | 32.7 | 0.7 | 24.7 | 5.0 | 23.7 | 20.5 |
| Other Services | 15.4 | 16.4 | 22.2 | –4.2 | 9.7 | 6.2 | 10.2 | 10.8 |
| Administration and Net Cost of Insurance | 1.1 | 13.1 | 0.3 | 16.7 | –14.2 | 17.6 | n/a | 15.4 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

## Health Care Expenditures by Source of Payment

### Table 2: Expenditures by Source of Payment as a Percent of Total Expenditures, 2003

| Expenditure Components | MEDICARE | MEDICAID | OTHER GOVERNMENT | PRIVATE COVERAGE | OUT-OF-POCKET | ALL PAYERS |
|---|---|---|---|---|---|---|
| **TOTAL HEALTH EXPENDITURES** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Hospital Services | | | | | | |
| Inpatient | 47.1 | 25.8 | 25.7 | 22.8 | 2.0 | 24.2 |
| Outpatient | 13.1 | 6.4 | 5.2 | 9.9 | 3.5 | 8.5 |
| Physician Services | 21.4 | 7.8 | 12.3 | 24.3 | 14.7 | 18.5 |
| Other Professional Services | 4.4 | 4.7 | 44.4 | 11.2 | 28.8 | 13.6 |
| Prescription Drugs | 0.1 | 13.4 | 5.2 | 13.4 | 26.9 | 13.1 |
| Nursing Home Care | 5.9 | 20.2 | 3.8 | 1.3 | 9.3 | 7.1 |
| Home Health Care | 2.6 | 14.4 | 0.7 | 1.0 | 1.8 | 3.8 |
| Other Services | 2.5 | 0.9 | 2.0 | 0.8 | 12.9 | 3.6 |
| Administration and Net Cost of Insurance | 2.9 | 6.5 | 0.6 | 15.3 | n/a | 7.8 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

## Table 3: Per Capita Expenditures by Source of Payment and Type of Service, 2002 and 2003

| Expenditure Components | MEDICARE | | MEDICAID | | PRIVATE COVERAGE | |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2002 | 2003 | 2002 | 2003 |
| **TOTAL HEALTH EXPENDITURES** | **$7,278** | **$7,719** | **$7,122** | **$7,381** | **$2,406** | **$2,645** |
| Hospital Services | | | | | | |
| Inpatient | 3,451 | 3,639 | 1,888 | 1,905 | 570 | 603 |
| Outpatient | 936 | 1,011 | 462 | 472 | 242 | 261 |
| Physician Services | 1,551 | 1,648 | 528 | 573 | 578 | 642 |
| Other Professional Services | 311 | 342 | 353 | 346 | 276 | 296 |
| Prescription Drugs | 9 | 10 | 893 | 987 | 324 | 355 |
| Nursing Home Care | 428 | 452 | 1,543 | 1,490 | 33 | 34 |
| Home Health Care | 198 | 201 | 922 | 1,061 | 24 | 26 |
| Other Services | 168 | 191 | 65 | 69 | 20 | 21 |
| Administration and Net Cost of Insurance | 226 | 225 | 468 | 479 | 339 | 406 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

## Table 4: Rate of Growth in Per Capita Expenditures by Source of Payment and Type of Service, 2002–2003

| Expenditure Components | MEDICARE | MEDICAID | PRIVATE COVERAGE |
|---|---|---|---|
| **TOTAL HEALTH EXPENDITURES** | **6.1%** | **3.6%** | **9.9%** |
| Hospital Services | | | |
| Inpatient | 5.4 | 0.9 | 5.9 |
| Outpatient | 8.0 | 2.1 | 8.1 |
| Physician Services | 6.3 | 8.6 | 11.1 |
| Other Professional Services | 10.2 | -1.9 | 7.2 |
| Prescription Drugs | 5.5 | 10.5 | 9.6 |
| Nursing Home Care | 5.7 | -3.5 | 1.7 |
| Home Health Care | 1.8 | 15.1 | 6.9 |
| Other Services | 13.6 | 5.3 | 8.1 |
| Administration and Net Cost of Insurance | –0.5 | 2.3 | 19.7 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

## Table 5: Expenditures by Type of Service as a Percent of Total Expenditures by Source of Payment, 2003

| Expenditure Components | GOVERNMENT SECTOR | | | | PRIVATE SECTOR | | | TOTAL |
|---|---|---|---|---|---|---|---|---|
| | Medicare | Medicaid | Other Government | Total Government | Private Coverage | Out-of-Pocket | Total Private | |
| **TOTAL HEALTH EXPENDITURES** | **19.6%** | **17.1%** | **4.2%** | **41.0%** | **39.4%** | **19.6%** | **59.0%** | **100.0%** |
| Hospital Services | | | | | | | | |
| Inpatient | 38.3 | 18.3 | 4.4 | 61.1 | 37.2 | 1.7 | 38.9 | 100.0 |
| Outpatient | 30.4 | 12.9 | 2.6 | 45.9 | 45.9 | 8.2 | 54.1 | 100.0 |
| Physician Services | 22.7 | 7.2 | 2.8 | 32.6 | 51.7 | 15.6 | 67.4 | 100.0 |
| Other Professional Services | 6.4 | 5.9 | 13.6 | 25.9 | 32.4 | 41.6 | 74.1 | 100.0 |
| Prescription Drugs | 0.2 | 17.5 | 1.7 | 19.3 | 40.4 | 40.3 | 80.7 | 100.0 |
| Nursing Home Care | 16.2 | 48.8 | 2.2 | 67.3 | 7.1 | 25.6 | 32.7 | 100.0 |
| Home Health Care | 13.6 | 65.7 | 0.8 | 80.1 | 10.3 | 9.6 | 19.9 | 100.0 |
| Other Services | 13.5 | 4.5 | 2.3 | 20.3 | 8.9 | 70.7 | 79.7 | 100.0 |
| Administration and Net Cost of Insurance | 7.4 | 14.3 | 0.3 | 22.0 | 78.0 | n/a | 78.0 | 100.0 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

## Table 6: Percent of the Growth in Expenditures for Sources of Payment Associated with Different Types of Service, 2002–2003

| Expenditure Components | GOVERNMENT SECTOR | | PRIVATE SECTOR | | TOTAL |
|---|---|---|---|---|---|
| | Medicare | Medicaid | Private Coverage | Out-of-Pocket | |
| **TOTAL HEALTH EXPENDITURES** | **100.0%** | **100.0%** | **100.0%** | **100.0%** | **100.0%** |
| Hospital Services | | | | | |
| Inpatient | 43.5 | 21.0 | 11.9 | 1.4 | 18.3 |
| Outpatient | 16.0 | 5.7 | 7.7 | 3.8 | 8.1 |
| Physician Services | 22.0 | 10.2 | 27.6 | 17.5 | 20.3 |
| Other Professional Services | 6.6 | 2.9 | 7.6 | 16.7 | 7.9 |
| Prescription Drugs | 0.1 | 19.1 | 12.9 | 33.7 | 14.3 |
| Nursing Home Care | 5.6 | 10.0 | 0.0 | 5.2 | 4.9 |
| Home Health Care | 1.2 | 24.2 | 0.6 | 5.0 | 8.2 |
| Other Services | 4.6 | 1.0 | 0.6 | 16.8 | 4.5 |
| Administration and Net Cost of Insurance | 0.4 | 5.9 | 31.1 | n/a | 13.4 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, Medicaid includes Traditional Medicaid and HealthChoice, and Private Coverage includes Insurers & Self-Funded and HMO plans.
Note: 0.0 means less than 0.5.

### Table 7: Percent of the Growth in Expenditures for Types of Service Associated with Different Sources of Payment, 2002–2003

| Expenditure Components | GOVERNMENT SECTOR | | | | PRIVATE SECTOR | | TOTAL |
|---|---|---|---|---|---|---|---|
| | Medicare | Medicaid Traditional | Medicaid HealthChoice | Other Government | Private Coverage | Out-of-Pocket | |
| **TOTAL HEALTH EXPENDITURES** | **18.3%** | **19.8%** | **8.4%** | **–2.3%** | **37.7%** | **18.0%** | **100.0%** |
| Hospital Services | | | | | | | |
| Inpatient | 43.5 | 20.9 | 11.4 | –1.8 | 24.5 | 1.4 | 100.0 |
| Outpatient | 36.3 | 9.1 | 10.9 | –0.6 | 36.0 | 8.4 | 100.0 |
| Physician Services | 19.8 | 2.1 | 12.1 | –0.7 | 51.2 | 15.5 | 100.0 |
| Other Professional Services | 15.4 | 5.2 | 5.1 | –0.6 | 36.6 | 38.4 | 100.0 |
| Prescription Drugs | 0.2 | 32.3 | 5.2 | –14.1 | 33.9 | 42.5 | 100.0 |
| Nursing Home Care | 20.7 | 54.4 | 2.6 | 3.6 | –0.2 | 18.9 | 100.0 |
| Home Health Care | 2.6 | 82.3 | 0.4 | 0.9 | 2.9 | 10.9 | 100.0 |
| Other Services | 18.6 | 6.8 | –0.4 | 2.1 | 5.3 | 67.5 | 100.0 |
| Administration and Net Cost of Insurance | 0.6 | 0.1 | 12.4 | –0.4 | 87.3 | n/a | 100.0 |

Note: Types of delivery systems are combined within payer groups. Medicare includes Original Medicare and Medicare+Choice, and Private Coverage includes Insurers & Self-Funded and HMO plans.

## HMO Enrollment

### Table 8: Number and Percent of Total Enrollment in HMOs by Major Insurer, 2002 and 2003

| YEAR | HMO ENROLLMENT NUMBER | | |
|---|---|---|---|
| | Medicare | Medicaid | Private Coverage |
| 2002 | 19,164 | 453,114 | 1,197,351 |
| 2003 | 21,499 | 468,377 | 1,262,060 |

| YEAR | PERCENT OF TOTAL ENROLLMENT | | |
|---|---|---|---|
| | Medicare | Medicaid | Private Coverage |
| 2002 | 2.9% | 81.4% | 29.8% |
| 2003 | 3.2% | 76.1% | 32.0% |

### Table 9: Rate of Growth in HMO Enrollment by Major Insurer, 1995–2003

| YEAR | MEDICARE | MEDICAID | PRIVATE COVERAGE |
|---|---|---|---|
| 2002–2003 | 12.2% | 3.4% | 5.4% |
| 2001–2002 | 3.5 | 7.4 | –7.1 |
| 2000–2001 | –71.6 | 8.5 | –9.3 |
| 1999–2000 | –19.5 | 10.0 | –2.0 |
| 1998–1999 | –3.1 | 11.4 | –1.6 |
| 1997–1998 | 5.3 | 79.4 | –0.4 |
| 1996–1997 | 125.0 | 30.4 | 5.6 |
| 1995–1996 | 131.8 | –0.1 | 6.6 |

## United States Health Expenditure Estimates and Projections

### Table 10: Total Expenditures and Rate of Growth, United States ($ millions), 2002–2003

| Expenditure Components | 2002 | 2003 | PERCENT CHANGE |
|---|---|---|---|
| **TOTAL HEALTH EXPENDITURES** | **$1,296,917** | **$1,403,553** | **8.2%** |
| Hospital Services | 441,631 | 472,993 | 7.1 |
| Physician Services | 297,802 | 318,883 | 7.1 |
| Other Professional Services | 109,673 | 115,351 | 5.2 |
| Prescription Drugs | 160,168 | 181,557 | 13.4 |
| Nursing Home Care | 99,445 | 103,170 | 3.7 |
| Home Health Care and Other Services | 92,210 | 99,727 | 8.2 |
| Administration and Net Cost of Insurance | 95,988 | 111,872 | 16.5 |

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see http:www.mhcc.state.md.us/health_care_expenditures/shea03/technicalnotes.pdf.

## Table 11: Per Capita Expenditures and Rate of Growth, United States, 2002–2003

| Expenditure Components | 2002 | 2003 | PERCENT CHANGE |
|---|---|---|---|
| **TOTAL HEALTH EXPENDITURES** | **$4,504** | **$4,826** | **7.2%** |
| Hospital Services | 1,534 | 1,626 | 6.1 |
| Physician Services | 1,034 | 1,097 | 6.0 |
| Other Professional Services | 381 | 397 | 4.2 |
| Prescription Drugs | 556 | 624 | 12.2 |
| Nursing Home Care | 345 | 355 | 2.7 |
| Home Health Care and Other Services | 320 | 343 | 7.1 |
| Administration and Net Cost of Insurance | 333 | 385 | 15.4 |

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see http:www.mhcc.state.md.us/health_care_expenditures/shea03/technicalnotes.pdf.

## Table 12: Percent of Total Expenditures by Type of Service, United States, 2002–2003

| Expenditure Components | 2002 | 2003 |
|---|---|---|
| **TOTAL HEALTH EXPENDITURES** | **100.0%** | **100.0%** |
| Hospital Services | 34.1 | 33.7 |
| Physician Services | 23.0 | 22.7 |
| Other Professional Services | 8.5 | 8.2 |
| Prescription Drugs | 12.3 | 12.9 |
| Nursing Home Care | 7.7 | 7.4 |
| Home Health Care and Other Services | 7.1 | 7.1 |
| Administration and Net Cost of Insurance | 7.4 | 8.0 |

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see http:www.mhcc.state.md.us/health_care_expenditures/shea03/technicalnotes.pdf.

## Table 13: Total Expenditures and Percent of Total Expenditures by Source of Payment, United States, 2003 ($ millions)

| Expenditure Components | 2003 | PERCENT OF TOTAL |
|---|---|---|
| **TOTAL HEALTH EXPENDITURES** | **$1,403,553** | **100.0%** |
| Medicare | 279,203 | 19.9 |
| Medicaid | 279,410 | 19.9 |
| Other Government | 43,174 | 3.1 |
| Private Coverage | 606,696 | 43.2 |
| Out-of-Pocket | 195,070 | 13.9 |

Source: National health expenditure (NHE) estimates and projections are developed by the Centers for Medicare & Medicaid Services, Office of the Actuary. For the purpose of comparison, the NHE estimates are adjusted to parallel Maryland State Health Expenditure Account (SHEA) sources of payment and service types. For details see http:www.mhcc.state.md.us/health_care_expenditures/shea03/technicalnotes.pdf.

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